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SUBJECT: ICT REFORM: WILL REALITY MATCH ENCOURAGING WORDS?

1. SUMMARY. Ambassador David Gross, Coordinator for International Communications and Information Policy (CIP), came to Hanoi February 27 for discussions on Vietnam's telecom and ICT market. He met a Vice Minister of Posts and Telecommunications (MPT), a Vice President of Vietnam's state-owned telephone monopoly, the President of a local software association as well as the IT Committee of AmCham Hanoi. Discussion topics included reforming Vietnam's ICT sector, developing Internet content, raising ICT literacy, protecting IPR, the state of the local software and outsourcing industry, WTO accession, and Internet governance issues at upcoming international conferences. Gross also advocated for Lockheed Martin on VINASAT. END SUMMARY.

2. On February 27, 2004 Ambassador David Gross, Coordinator for International Communications and Information Policy (CIP), met with Vice Minister Mai Liem Truc of the Ministry of Posts and Telecommunications (MPT) and Vice President Bui Thien Minh of Vietnam Posts and Telecommunications Corporation (VNPT). Gross also met with about 20 members of the IT Committee of AmCham Hanoi and the President of the Vietnam Software Association (VINASA), Dr. Truong Gia Binh. Andrew Hyde, CIP Director for Asian and Pacific Affairs, ECONCOUNS and Econoff accompanied him.

MPT: The Non-Independent Regulator

3. Gross met first with MPT Vice Minister Mai Liem Truc. MPT regulates postal and telecommunications and related information technology services. Vice Minister Truc, who has met Gross at numerous international telecommunications and technology events, received him warmly.

4. ICT REFORM. According to Truc, the recent restructuring of MPT was a good start in Vietnam's effort to reform the ICT sector, but he admitted much remained to be done. In 2-3 months MPT will submit a strategic plan for the next 10-15 years to the Prime Minister. Truc believes Vietnam must implement four basic changes to create an ICT sector that will continue to grow; a) a good infrastructure with widespread access, b) a diversified manufacturing base, c) a critical mass of digital commerce and services, and d) human resource development and societal adaptation of ICT. While he sees government playing a role of creating a legal framework and acting as a significant consumer, he views enterprise as the primary enabler.

5. INDEPENDENT REGULATION. Gross urged Truc to consider establishing an independent regulator and strong IPR legislation as an integral part of ICT development. Truc noted the difficulty that Thailand has experienced in establishing an independent regulatory body, and he believes Vietnam would have a similar result. Gross noted that this was largely due to the slow pace of Thai reform process and a swift reform would be most effective. Truc doubted that Vietnam could reform swiftly enough to avoid similar problems. Gross encouraged Truc to consider the possibility of rapid transition and added that Vietnam's robust mobile communications market gave it an advantage over Thailand.

6. U.S. INVESTMENT AND TRAINING. Truc requested USG assistance in attracting greater U.S. investment. He is very pleased with IDG's plans to invest 100 million USD in Vietnam, but he noted the lack of U.S. investment in the ICT service sector. There was, he noted, only one significant U.S. manufacturing operation: the VNPT-Corning's fiber optic plant near HCMC. Asked why investors preferred China to Vietnam, Gross pointed out that there are no significant United States service sector investments in China either. MPT would like to promote Vietnam as a good springboard for foreign investors who are interested in investing in Laos and Cambodia, Truc said. He mentioned a long-term commitment for investment between Comvik and VNPT worth 200 million USD signed during the recent Swedish Royal visit. Besides increased U.S. investment, MPT is also very interested in increasing its participation in training at the U.S. Telecommunications Training Institute. They were receptive to Gross' offer to coordinate an exchange with or a visit by the Federal Communications Commission.

7. PROMOTION OF ELECTRONIC SERVICES. As part of the restructuring that resulted from the 2002 Ordinance on Posts and Telecommunications, MPT got complete responsibility for

promoting ICT applications in all sectors including electronic governance, commerce, and education. Part of MPT's strategic plan will include a road map for improving and increasing the amount of online government services available. Gross commended this effort noting that it will increase transparency and reduce corruption. To further support an increase in electronic commerce, the GVN has encouraged banks to facilitate wider use of credit cards. Econcouns suggested promoting prepaid cards for those who were unable to qualify for credit. Gross lauded MPT for its efforts to bring ICT to schools throughout the country, and encouraged MPT to avoid managing ICT too intensively, rather to create a framework that encourages adaptation and use of new technology.

18. ONLINE CONTENT. Although lack of Internet penetration is currently hindering the increase in Vietnamese language content and opportunities to generate revenue, MPT noted the success of VNExpress, an Internet news service with three years of online operations. In 2003, VNExpress had 800,000 readers and over 30 million visits per month.

19. ICT LITERACY PROGRAM. Truc described a new volunteer program designed to increase ICT literacy called "1,000,000 volunteers to teach 20,000,000 students." This five-year project in partnership with the Youth League focuses on educating rural youth. MPT has requested in-kind support from several U.S. corporations such as Cisco Systems, Intel, HP, and Sun Microsystems.

110. VINASAT. Gross asked Truc if he knew of recent developments in the selection process for the VINASAT procurement. Truc had originally been involved in establishing the selection committee, but as a result of some recent changes, he is now just a member of the selection committee. He said the process was almost complete and mentioned the difficulty that VNPT is having regarding the orbital slot. VNPT's negotiations with the Japanese government to secure a slot have been unsuccessful. Truc said VNPT asked contractors to guarantee an orbital slot, and that Lockheed Martin (LM) would not make such a guarantee. Gross said that he is also concerned about an apparent Japanese lock on orbital slots. He cautioned that a private company could not make any guarantees about orbital slots, and VNPT should be wary of any company that would make such a claim. He said the USG is very interested in this matter and would be very supportive of the project should LM receive the bid (Note: LM has subsequently reported renewed Vietnamese interest in their bid).

111. WTO ACCESSION. Truc also requested USG support for Vietnam's bid to join the WTO in 2005. When Truc made this request for support he said that MPT considers Vietnam's BTA commitment to be a good point from which to join the WTO.

112. INTERNET GOVERNANCE. Gross also mentioned that he hopes that the GVN will work more closely with the USG on a variety of issues at the upcoming second phase of the World Summit on the Information Society (WSIS) in Tunisia in 2005. One issue of particular interest to the USG will be Internet governance. Truc said he looks forward to the event as well, but he made no comment indicating support or lack of support for the USG position on this issue. However, during his introductory remarks he did express his appreciation for USG support of GVN resolutions at the recent ITU conference in Marrakech.

#### VNPT: The Monopoly

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113. VNPT and MPT TOO CLOSE FOR COMFORT. Gross met VNPT Vice President Minh about thirty minutes after his meeting with MPT. Instead of meeting at VNPT headquarters, a short walk from the MPT offices, VNPT hosted Gross in the very same reception room where he met with MPT Vice Minister Truc. VNPT is the monopoly provider of telecommunications services in Vietnam and dominates the market.

114. PRIVATIZATION. Although Minh avoided answering questions about future plans for privatization, he said that VNPT anticipates that its current market share will decrease significantly over the next couple of years and stabilize around 25%. Minh estimates that VNPT currently enjoys a 70% market share. By 2010, VNPT also anticipates an overall subscriber rate of 30-35%.

115. AREAS OF TRAINING INTEREST. In addition to requesting increased U.S. investment, VNPT requested support to increase the number of exchanges with U.S. companies and training opportunities for human resource development. VNPT is particularly interested in receiving exchanges related to three areas; a) managerial experience, b) better understanding of how to exploit the existing network, and c) how to increase internet revenue.

116. BUSINESS INCENTIVES AND IPR. In his discussion with

VNPT, Gross mentioned that one way to help boost content generation would be to create incentives for small and medium businesses to enter the market. Gross also noted the important role that Vietnam's young population would play in boosting the growth of online content. It would be wise, he observed, for the GVN and SOEs to facilitate this growth. At several points in the discussion, Gross and Econcouns also the need for good IPR policies. IPR was noted as another critical factor in encouraging growth in the ICT sector. Minh did not respond to these comments.

17. VINASAT. During the meeting with VNPT, Gross also inquired about the VINASAT contract. Minh assured Gross that VNPT was strictly abiding by the regulations governing contractor selection. He also mentioned that bidders could provide additional information during the selection process to clarify any questions that might arise during the evaluation process. Econcouns asked if there was anything specific that needed to be clarified by LM, but Minh was not aware of any specific questions about their bid. (COMMENT: This was a very awkward exchange, and the US side was somewhat confused by Minh's statement and demeanor. END NOTE.)

#### VINASA: Software Association

18. VINASA is a trade association representing 78 members most of whom are Vietnamese software companies. Dr. Binh, the Chairman of VINASA also runs FPT, a joint stock company with 10% equity owned by the GVN in the software and internet services business. According to Dr. Binh, VINASA views the ICT sector as a promising outlet for the pressure to create employment for Vietnam's youthful population, but several issues must be addressed for the sector to grow, particularly the mismatch between educational curriculum and skill requirements. Further complicating the ICT development process is the lack of competition inherent in a sector where the only six network service providers are SOEs. Binh believes that the establishment of an independent regulator and privatization are a possibility in the future, but the reform process will move very slowly. Furthermore, today, the pressure to reform is applied from the top down only, and it is neither firm nor consistent.

19. SOFTWARE DEVELOPMENT AND OUTSOURCING. VINASA sees great potential in the software development sector, but Binh still believes that this sector lacks adequate quality control measures. As proof of the potential, VINASA has recorded an 80% increase in Vietnam's software outsourcing sector in 2003. Of that growth, the percentage of outsourcing by Japanese firms grew by 400%. In response to questions about specialization by Vietnamese software firms, VINASA considers most software development to focus on construction, accounting, and other industry specific applications. There is very little competition from other countries for Vietnamese language software, and most SMEs buy their Vietnamese language products from local producers. VINASA also believes that many Vietnamese firms, especially FPT-Soft, one of the subsidiaries of Binh's firm FPT, would benefit from understanding how to tap into the small and medium enterprise (SME) market in other countries. FPT-Soft has opened an office in Silicon Valley, but they still only have contracts with large companies such as IBM and HP.

20. ICT LITERACY PROGRAM. VINASA is also a partner of the ICT literacy program described by MPT. Binh described another component of this program involving the manufacture of cheaper computers for sale to low-income households. VINASA said the program plans to offer computers for as little as USD 250.

21. IPR. VINASA strongly supports improved IPR legislation and enforcement. However, Binh is not optimistic view about the GVN approach to this issue. Although the interagency committee for promoting ICT, Committee 58, has been considering improved IPR legislation, they have yet to move forward with any real developments, he said.

#### AMCHAM IT Committee Rebirth?

22. The luncheon in host of Ambassador Gross was the first event held by the AMCHAM IT Committee in about a year. As a result of his visit and the lunch, they resolved to resume monthly meetings. AMCHAM Executive Director announced a new initiative in partnership with Vietnam Television (VTV) to produce and broadcast a thirty-minute program on IPR issues. He did not provide exact dates but said that it would air in the near future.

23. INVESTMENTS AND CONTRACTUAL RELATIONSHIPS. At the AMCHAM IT Committee luncheon, Matthew Holden, Oracle's Sales Director based in Singapore, said his company had shelved its plans to invest in China because of the government's handling of SARS. Oracle is looking at Vietnam as a

potential site for investment. Many companies raised the issue of the difficulty of moving beyond consulting relationships to long-term contractual relationships in Vietnam. Specifically, UNISYS raised the issue of port and cargo security operations. They are interested in providing training to the GVN about the new requirements and introducing them to their products that can assist with implementing and managing security operations throughout the delivery cycle, but they are concerned about engaging the GVN if this investment of time and resources is not likely to lead to a contract.

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